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DEPARTMENT OF DEFENSE

SECONDARY ITEM STRATIFICATION MANUAL

JUNE 1995

**OFFICE OF THE UNDER SECRETARY OF DEFENSE
FOR ACQUISITION AND TECHNOLOGY**



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FOREWORD

This Manual is issued under authority of DoD Directive 4140.1, "Materiel Management Policy," January 4, 1993. It provides the standard specifications for the Secondary Item Stratifications to ensure the uniform portrayal of materiel requirements and assets of individual secondary items at the wholesale and retail levels among all DoD Components. It also is a detailed reference Manual on the development of each stratification matrix, which must be provided to the Office of the Secretary of Defense twice annually by weapon system, budget category, and Inventory Control Point.

This Manual applies to the Office of the Secretary of Defense (OSD), the Military Departments, the Chairman of the Joint Chiefs of Staff, the Inspector General of the Department of Defense (IG, DoD); the Defense Agencies, and the DoD Field Activities (hereafter referred to collectively as "the DoD Components"). This Manual is effective immediately; it is mandatory for use by all the DoD Components. Send recommended changes to this Manual to:

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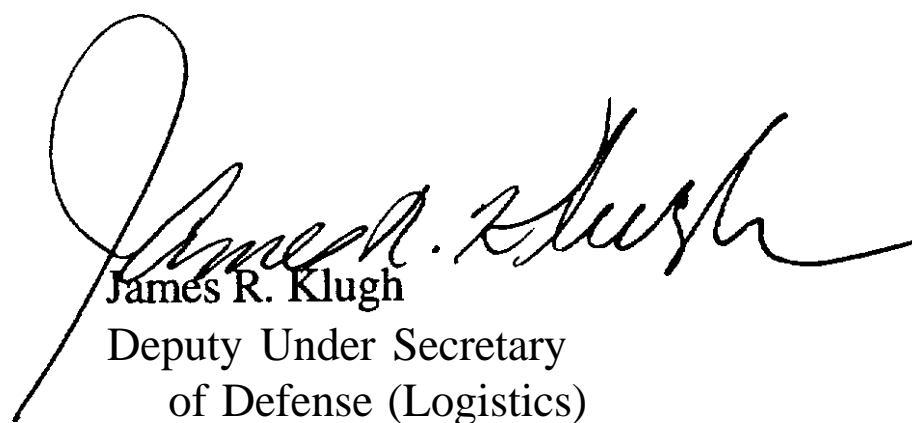

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REFERENCES

- (a) DoD Directive 3110.6, "War Reserve Materiel Policy, " April 25, 1994
- (b) Defense Planning Guidance
- (c) DoD 4140.1-R, "DoD Materiel Management Regulation, " January 1993, authorized by DoD Directive 4140.1, January 4, 1993
- (d) DoD Directive 4140.1, "Materiel Management Policy, " January 4, 1993

DEFINITIONS

1. Acquisition Lead Time (AQLT) . The sum of the Administrative Lead Time (ALT) and Production Lead Time (PLT) .
2. Active Inventory. Materiel that is expected to be consumed within the budget year (2 years) and materiel that has been purchased to meet specific war reserve requirements.
3. Administrative Lead time (ALT) . The time interval between identification of a need to buy and the letting of a contract or the placing of an order.
4. Approved Acquisition Objective. The quantity of an item authorized for peacetime and wartime requirements to equip and sustain U.S. and Allied Forces in accordance with current DoD policies and plans. This quantity shall be sufficient to support other U.S. Government agencies, as appropriate.
5. Assembly. An item forming a portion of a piece of equipment that can be provisioned and replaced as an entity and incorporates replaceable parts or groups of parts.
6. Average Customer Wait Time. The mean average time, in days, required to satisfy customer demands, whether or not the demand was for a stocked or a non-stocked item, or the demand was satisfied from stock on-hand at the supply activity or other sources.
7. Component (lower case) . An assembly or any combinations of parts, subassemblies, or assemblies mounted together in manufacture, assembly, maintenance, or rebuild.
8. Consumable Item of Supply. An item of supply (except explosive ordnance, major end items of equipment, and reparable) that is normally expended or used up beyond recovery in the use for which it is designed or intended.
9. Consumer Level of Supply. An inventory, regardless of funding source, usually of limited range and depth, held only by the final element in an established supply distribution system for the sole purpose of internal consumption.
10. Consumer-Level Stock. The lowest Retail Level of Supply. (See definition of "Retail-Level Supply.")
11. Contingency Retention Stock. That portion of the quantity of an item greater than the AAO and economic retention stock for which there is no predictable demand or quantifiable requirement, and that

normally would be allocated as Potential Reutilization Stock, except for a determination that the quantity will be retained for specific contingencies .

12. Customer Demand Pattern. A historical profile of the demands for an item arrayed within timeframes in terms of the geographic locations of the requiring activities and the quantitative volumes required.

13. Demand. An indication of a requirement (requisition, request, issue, reparable generation, etc.) for issue of serviceable materiel. Demands are categorized as either recurring or nonrecurring.

14. Demand-Based Items. Items that are stocked based on forecasted usage. Demand-based items are stocked based on economics or on military mission essentiality for limited demand items.

a. Economic Based. Demand-based items are stocked based on economics when the cost of being out of stock is equal to or exceeds the cost of holding stock and shall be stocked at the wholesale level .

b. Limited Demand. An item for which usage is anticipated but the item does not meet the established economic stockage criteria. Although limited demand items fail the economic criteria for demand-based stockage because the probability of demand is low, they qualify as an MME code I, II, or III because the lack of a replacement item would seriously hamper the operational readiness of a weapon system.

15. Demand Development Period. The period of time extending from the date of preliminary operational capability to a point in time when spare and repair parts requirements can be forecast based on actual demands using statistically valid methods.

16. Demand-Supported Item. Applied to a specific location or retail inventory (either intermediate or consumer) , a demand-supported item is one for which the decision to stock, not to stock or to continue stockage is based upon actual demands, previously recorded at or transferred to that particular activity or location.

17. Economic Order Quantity (EOQ). The quantity derived from a mathematical technique used to determine the optimum (lowest) total variable costs to order and hold inventory.

18. Economic Repair Quantity (ERQ). The quantity derived from a mathematical technique used to determine the optimum (lowest) total variable costs to repair and hold inventory.

19. Economic Retention Stock. That portion of the quantity of an item greater than the AAO determined to be more economical to retain for future peacetime issues than to dispose and satisfy projected future requirements through new procurement and/or repair. To warrant economic retention, an item must have a reasonably predictable demand rate.
20. End Item. A final combination of end products, component parts, or materials ready for its intended use (e.g., a ship, tank, mobile machine shop, or aircraft) .
21. End Use Secondary Item Materiel. Materiel in use or to be consumed that is no longer under the custody or on the records of the supply System or a supply organization; materiel that has been issued to the ultimate consumer for use and/or consumption and is not intended for further redistribution. These are expensed assets for financial accounting purposes and are not considered Supply System stock or inventory for any purpose and will not be reported as such.
22. End-User. That individual or organizational element authorized to use supply items. This is normally the terminal point in the logistics system at which action is initiated to obtain materiel required for the accomplishment of an assigned mission or task.
23. Essential Item. A support item or a repair part whose absence renders the supported system or end item inoperable.
24. Excess. Materiel that has completed reutilization screening within the Department of Defense (DoD) and is not required for the needs and the discharge of responsibilities of any activity.
25. In-process Assets. Assets on order from DoD vendors and not yet shipped, assets in repair at depot-level organic or commercial repair facilities, and assets in repair at intermediate repair facilities.
26. In-storage Assets. Assets in storage at retail consumer level sites, at retail intermediate storage sites, at disposal activities, or in wholesale inventories.
27. In Transit Assets. Assets defined as "in transit" represent materiel that is between storage locations, either wholesale or retail; materiel shipped from vendors after acceptance by the Government but not yet received by the inventory manager; materiel temporarily in-use or on loan with contractors or schools; or materiel that cannot be otherwise categorized. In transit assets are not included in the records of wholesale inventory used in the stratification process.

28. Inactive Inventory. Materiel that is not expected to be consumed within the budget period but is likely to be used in future years.

29. Initial Supply Support. Providing the range and quantity of spare and repair parts for a period of service before replenishment supply support; synonymous with provisioning of initial spare and repair parts.

30. Insurance Item. A nondemand-based, stocked, essential item for which no failure is predicted through normal usage. However, if a failure were to be experienced, or a loss should occur through accident, abnormal equipment or system failure, or other unexpected occurrence, lack of replacement item would seriously hamper the operational capability of a weapon system.

31. Integrated Materiel Manager (IMM). Any DoD activity or agency that has been assigned wholesale integrated materiel management responsibility for the DoD and participating Federal Agencies. Integrated materiel management responsibilities include cataloging, requirements determination, procurement, distribution, overhaul, repair and disposal of materiel. The terms Integrated Materiel Manager (IMM), Inventory Control Point (ICP), and Materiel Manager are synonymous.

32. Intermediate Supply. Intermediate supply refers to any level of inventory between the consumer and wholesale level of inventory and is considered a retail level. The terms "intermediate supply, " "intermediate level of inventory, " and "retail intermediate echelon." are synonymous.

33. Life-of-Type Buy. A one-time procurement, when all cost-effective and prudent alternatives have been exhausted, for the total future requirement of an item that is no longer expected to be produced. The procurement quantity shall be based upon demand or engineering estimates of mortality sufficient to support the applicable equipment until phased out.

34. Limited Demand Item. A demand-based item for which usage is anticipated but the item does not meet the established economic stockage criteria, or an item for which the computed demand-based quantity is less than the authorized stockage level. Although limited demand items fail the economic criteria for demand-based stockage because the probability of demand is low, they qualify as an MME code I, II, or III because the lack of a replacement item would seriously hamper the operational readiness of a weapon system.

35. Maintenance Replacement. The replacement of an unserviceable reparable item by a serviceable item. Unserviceable items, in this context, include items which are replaced due to malfunction or

have reached the end of an administratively determined removal interval for preventive maintenance or safety considerations.

36. Materiel Obligation. A "materiel obligation" is that unfilled portion of a requisition (for a stocked or nonstocked item) that is not immediately available for issue but is recorded as a commitment for future issue.

37. Military Mission Essentiality (MME). This code indicates the composite effect of an item on the overall military mission based on the most critical significant application of the item. This code shall be used in determining resource allocations, determining degree of management intensity, and communicating essentiality among DoD Components . There are four levels of MME :

- a. Code I. Most essential to military mission.
- b. Code II. Highly essential to military mission.
- c. Code III. Less essential to military mission.
- d. Code IV. Not essential to military mission.

38. Minimum Replacement Unit (MRU). The minimum quantity of an item normally replaced during a maintenance action, often the quantity of a component used per end item.

39. Model. A mathematical representation of an operation or management system capable of manipulation to achieve optimum solutions to stated problems.

40. Multi-echelon Readiness-Based Sparing Models. Mathematical models capable of computing the optimal range and depth of spare and repair parts at both wholesale and retail levels to achieve a weapon system readiness goal "for the least cost or to maximize readiness for a fixed cost.

41. National Item Identification Number (NIIN). A series of nine numerals within the NSN that differentiates each individual supply item from all other supply items. The first two digits signify the National Codification Bureau which assigned the NIIN, while the last seven digits are sequentially assigned by the Federal Logistics Information System.

42. National Stock Number. A thirteen position number used to identify items of supply. It consists of a four position Federal Supply Class and a nine-position NIIN.

43. Nondemand-Based. An item that has no forecasted demands but qualifies for stockage based on other criteria. The two types of nondemand-based items are insurance items and program based:

a. Insurance Item. An item for which there is no forecasted usage but which qualifies as both a source code PB (an item procured and stocked for insurance purposes because essentiality dictates that a minimum quantity shall be available in the supply system) and a MME code I, II, or III (for which no failure is predicted through normal usage) ; but if a failure is experienced or a loss occurs through accident, abnormal equipment or system failure, or other unexpected occurrences, lack of a replacement will seriously hamper the operational readiness of a weapon system.

b. Program-Based. Inventory maintained to fill a specified approved program requirement. There are two types of program requirements, as follows:

(1) Life-of-Type. Items that are procured on a one-time basis, when all cost-effective and prudent alternatives have been exhausted, for the total future requirement of an item that is no longer expected to be produced. The procurement quantity shall be based on demand or on engineering estimates of mortality sufficient to support the applicable equipment until phased out.

(2) Planned Program Stocks. Quantities of an item needed over and above recurring requirements to meet approved programs of a nonrecurring or a sporadic nature (e.g. , set assembly and non-repetitive overhaul programs) for which requirements may not be predicted by normal forecasting methods.

44. Nonrecurring Demand. A request by an authorized requisitioner to satisfy a materiel requirement known to be a one-time occurrence. This materiel is required to provide initial stockage allowances, to meet planned program requirements, or to satisfy a one-time maintenance requirement. Demands identified by customers as nonrecurring shall be included in wholesale supply forecasts to the extent that an ICP can demonstrate that a particular quantity of nonrecurring demands will improve demand forecasts.

45. Not Mission Capable Supply (NMCS). A materiel condition indicating that systems and equipment are not capable of performing any of their assigned missions because of maintenance work stoppage due to a supply shortage.

46. Not Stocked (NS). An item for which there is no established RO. Inventory or usage data may be present; however, stock replenishment would not be initiated.

47. Numeric Retention Stock. Formerly the quantity of an item greater than all identified requirement objectives but for which disposal is currently infeasible or uneconomical or for which a management decision has been made to retain stock in the supply system. This category of stock is no longer valid.

48. Operating Level (OL) of Supplies. The quantity of materiel required to sustain operations in the interval between replenishment shipments. The term "operating stocks" is synonymous with operating level of supplies.

49. Order and Shipping Time (OST) Level. The quantities of materiel required to sustain operations during the interval between the time that an activity processes a replenishment requisition and the time the activity receives the requisitioned materiel.

50. Potential Reutilization/Disposal Materiel. Component materiel identified by an item manager for possible disposal but with potential for reutilization; or materiel that has the potential for being sent by an item manager to the Defense Reutilization and Marketing Service for possible reutilization by another Component or by a Federal, state, or local governmental Agency, or for disposal through sale to the public.

51. Principal Items. End items and replacement assemblies of such importance that management techniques require centralized individual item management throughout the supply system to include items stocked at depot level, base level, and using unit level. Specifically, these include items of which, in the judgment of the Military Services, there is a need for central inventory control, including centralized computation of requirements, central direction of distribution, and central knowledge and control of all assets owned by the Military Services. principal items normally will be selected on the basis of their essentiality for combat or training, high monetary value, difficulty of procurement or production, or criticality of basic materials or components.

52. Production Lead Time (PLT). The time interval between the letting of a contract or the placing of an order, and receipt into the supply system of materiel purchased.

53. Program Objective Memorandum (POM). The POM documents a six year projected blueprint of each organization's proposals for updating defense programs. It is submitted to the Secretary of Defense by each Military Department, Defense Agency and Special Operations Command for approval. The approved POM defines the programs to be supported in the Military Department and Defense Agency budgets.

54. Provisioning. The management process of determining and acquiring the range and quantity of support items necessary to operate and maintain an end item of materiel for an initial period of service.

55. Readiness. A measure or measures of the ability of a system to undertake and sustain a specified set of missions at planned peacetime and wartime utilization rates. Measures take account of the effects of system design (reliability and maintainability), the characteristics of the support system, and the quantity and location of support resources. Examples of system readiness measures are combat sortie rate, fully mission capable rate, and operational availability.

56. Readiness Based Sparing (RBS). The establishment of an optimum range and quantity of spares and repair parts at all stockage and user locations in order to meet approved, quantifiable, weapon system readiness, operational availability, or fully mission-capable objectives.

57. Reason for Stockage Category (RSC). The categorization of an item that indicates the reason or basis for stockage at the retail level of inventory. These categories reflect the stockage computation or decision rule applicable, and in some cases are used for inventory stratification and supply management purposes. The demand-supported grouping includes only items which meet the criteria for stockage on a "stocked demand" basis, whereas the nondemand-supported grouping includes items stocked in the following RSCs: stocked insurance, stocked numeric, stocked pre-positioned war reserve materiel stock, not stocked, and other.

58. Recurring Demand. A request by an authorized requisitioner to satisfy a materiel requirement for consumption or stock replenishment that is anticipated to recur periodically. Demands for which the probability of future occurrence is unknown will be considered recurring. Recurring demands will be considered by the supporting supply system in order to procure, store, and distribute materiel to meet similar demands in the future.

59. Reorder Point (ROP). That point at which a stock replenishment requisition would be submitted to maintain the predetermined or calculated stockage objective. The sum of the safety level of supply, the level for ordering and shipping time, repair cycle level, and authorized additive levels equals the reorder point.

60. Repair Cycle Level. The quantity of reparable items required to sustain operations during the repair cycle that commences when a maintenance replacement takes place and ends when the unserviceable asset is returned to stock in a serviceable condition. This includes such stages as removed, awaiting shipment, in transit, in pre-repair

screening, in process of repair, and being returned to serviceable stock. Any extraordinary awaiting-parts delays and any intentional extended-transit, storage, or repair-process delays should be excluded from the repair cycle.

61. Reparable Item. An item of supply subject to economical repair and for which the repair (at either depot or field level) is considered in satisfying computed requirements at any inventory level .

a. Depot Level Reparable Item. A reparable item of supply that is designated for repair at depot level or that is designated for repair below the depot level, but if repair cannot be accomplished at that level, will have its unserviceable carcasses either forwarded to the depot for repair or condemnation, or reported to the ICP for disposition.

b. Field Level Reparable Item. A reparable item of supply that is normally repaired below the depot level of maintenance and for which condemnation authority can be exercised below the depot level of maintenance.

62. Replenishment. Actions to resupply or increase stockage of reparable or consumable parts in support of fielded items.

63. Requirements Computation. Any mathematical calculation performed to support requirements determination functions.

64. Requisitioning Objective. The maximum quantity of materiel to be maintained on hand and on order to sustain current operations and core war reserves. It will consist of the sum of stocks represented by the operating level, safety level, repair cycle and the order and shipping time.

65. Resupply Time. The mean time between the date a retail activity submits a requisition to the wholesale system and the receipt of the requisitioned materiel.

66. Retail Inventory Manager. Any inventory manager of either a consumer or intermediate level of inventory.

67. Retail-Level Supply. Those secondary items stored within DoD intermediate and consumer levels of supply. These include supply levels down to the following: Army - to Authorized Stockage List (ASL) and installation; Navy - to resupply ships, intermediate maintenance afloat units and shore installations; Air Force - to base supply ; Marines - to Marine Expeditionary Force (MEF) and base

supply . Retail-Level assets do not include End Use Secondary Item Materiel.

68. Retail Stock. Stock held in the custody or on the records of a supply organization below the wholesale level.

69. Retention Limit. The maximum quantity of on-hand materiel that may be retained in stock, as determined by applicable retention rules.

70. Safety Level. The quantity of materiel required to be on hand to permit continued operation in the event of a minor interruption of normal replenishment or a fluctuation in demand.

71. Secondary Items. Consumable and reparable items other than principal items.

72. Stockage Objective. The maximum authorized quantity of materiel to be on hand to sustain current operations. It consists of the sum of stock represented by the operating level, the safety level, the repair cycle level, and authorized additive levels.

73. Stocked Demand (SD). A demand-supported item for which the established RO is based on actual recurring demands (including transferred demands, as appropriate) at the activity.

74. Stocked Insurance (SI). A nondemand-supported, essential item for which replacement is not anticipated as a result of normal usage and for which an unacceptable lead time (procurement or order and shipping time (OST)) has been established. If failure is experienced, or loss occurs, through accident, abnormal equipment or system failure, or other unexpected occurrences, the lead time required to obtain a replacement would seriously hamper the operational capability of a critical facility or weapon system.

75. Stocked Limited Demand (SLD). A demand-supported item for which there is anticipated usage, but the item does not meet the established economic stockage criteria. The established RO is based upon anticipated usage.

76. Stocked Provisioning (SP). A nondemand-supported item specifically stocked to support a newly introduced end item for that period of time until requirements are forecast entirely upon actual demands. This period may not exceed two years. The established RO is based upon the asset positioning policy and anticipated usage developed during the provisioning process.

77. Stratification Process. A uniform portrayal of requirements and assets application that is a computer-generated, time phased simulation of actions causing changes in the supply position; e.g. ,

procurement, repair, receipt, issue, terminations, and disposal of materiel .

78. Supply Pipeline. The link from the end user to the retail level to the wholesale level of supply through which requisitions and materiel normally flow.

79. Total Asset Visibility. The capability for both operational and logistics managers to obtain and act on information on the location, quantity, condition, movement, and status of assets throughout the DoD Logistics system. TAV includes all levels, and all secondary items, both consumable and reparable.

80. Total Order-Ship Time. The time period extending from the date of a requisition until the date that the materiel is recorded on the requisitioner's inventory records.

81. Unit of Issue. Denotes by what means we buy and ultimately issue materiel for our end-users/customers . Depending on the item, Unit of Issue can be quantity or physical measurement, or by container or shape of the item. Unit of Issue is standard for each item of supply across the DoD.

82. Weapon System and/or End Item Mission Essentiality Code. This code indicates whether the weapon system or end item is essential to the military mission of the Service. Weapon systems and/or end items are classified as either mission-essential or not mission-essential.

a. Mission-Essential. That Service-designated materiel authorized for combat, combat support, combat service support, and combat readiness training forces and activities, including Reserve and National Guard activities, which is required to support approved emergency and/or war plans, and when the materiel is used to:

- (1) Destroy the enemy's capability to continue war.
- (2) Provide battlefield protection of personnel.
- (3) Communicate under war conditions.
- (4) Detect, locate, or maintain surveillance over the enemy.
- (5) Provide combat transportation and support of personnel and materiel.
- (6) Support training functions, but is suitable for employment under emergency plans to meet the purposes enumerated,

herein. Mission-essential materiel is divided into two categories, as follows./

(a) Code A - Highest Priority Mission-Essential. That mission-essential materiel required to accomplish the military mission of activities assigned FAD I or FAD II.

(b) Code B - Lower Priority Mission-Essential. That mission-essential materiel required to accomplish the military mission of activities assigned FAD III, FAD IV, or FAD V.

b. Not Mission-Essential. Materiel that does not qualify as mission -essential falls into Code C.

83. Weapon System Availability. A weapon system is available if it is capable of performing its intended mission.

84. Wholesale Stock. Stock, regardless of funding sources, over which the Integrated Materiel Manager has asset knowledge and exercises unrestricted asset control to meet worldwide inventory management responsibilities.

85. Wholesale Supply. The highest level of organized DoD supply, and as such, procures, repairs and maintains stocks to resupply the retail levels of supply. The terms "wholesale supply, " "wholesale level of supply, " and "wholesale echelon" are synonymous.